

Future of Our Global Economy

The Beginning of De-Globalization

The corona crisis is changing the global economy. Production security is growing more important than efficiency. Here is what that might look like.

By **Alexander Jung**

05.05.2020, 10.46 Uhr



A container ship in Qingdao, China SIPA / ZUMA PRESS / ACTION PRESS

Corona is here, and it won't be leaving anytime soon. Which means that hopes for a return to normal are likely to be in vain. Furthermore, everybody has become hyper-aware of the dangers of infection and it is a fear that will stay with us.

ANZEIGE

×

Social distancing will continue to guide our personal interactions, restaurants will leave every second table empty, open-plan offices are being divided up and only two, maybe three, people will get into the elevator at a time, and each will be facing a

different corner. Such is our new reality, and such are the changes coming to the world of work. More than that, companies are trying to make themselves more resistant to sudden economic shocks and resilience is the new guiding principle.

Industrial machine producers, of the kind that make a huge contribution to the German economy, have begun shifting priorities from making the supply chain as cheap as possible to making it as secure as possible. Wholesalers have turned to video chats when making large sales rather than flying halfway around the world as they used to. Airlines, meanwhile, find themselves fighting for survival and many have had to take public-sector bailouts.

DER SPIEGEL 19/2020



cgs

The article you are reading originally appeared in German in issue 19/2020 (May 02, 2020) of DER SPIEGEL.

[FAQ: Everything You Need to Know about DER SPIEGEL](#)

[Seven Decades of Quality Journalism: The History of DER SPIEGEL](#)

[Reprints: How To License SPIEGEL Articles](#)

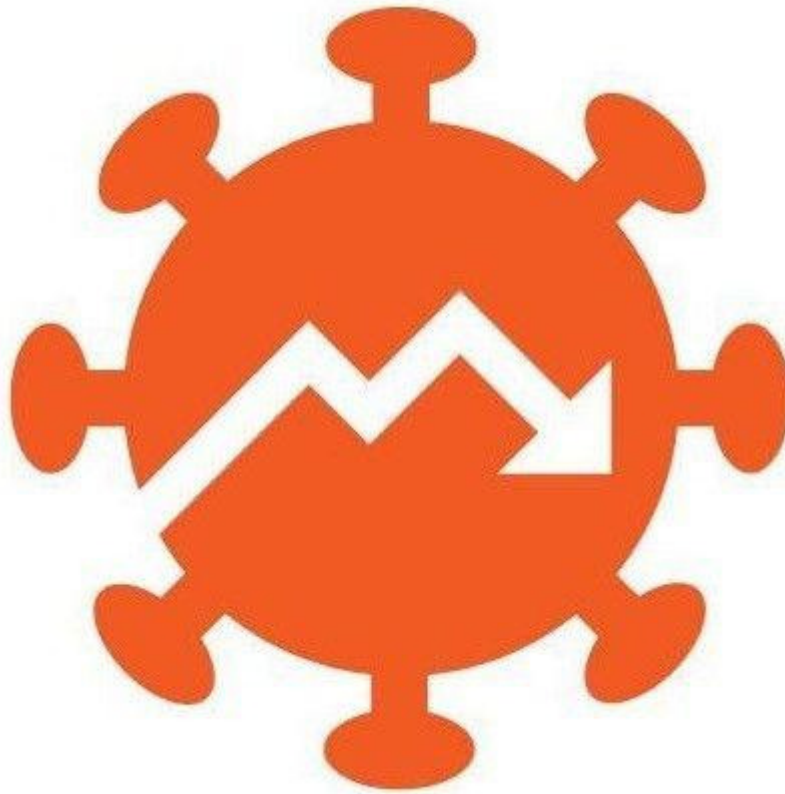
Indeed, in the foreseeable future -- for months, or perhaps even years -- the state will be the savior of last resort for many companies. It alone has sufficient means at its disposal to battle the pandemic, minimize its economic consequences and prop up entire industries. And not only is the state in Germany providing emergency aid, cheap loans and economic stimulus, it is also ensuring that the minimum wage is significantly increased for care workers in retirement homes while top executives at companies like Daimler and Lufthansa are voluntarily forgoing their bonuses.

Will It Be More Just?

Such is the new world at the beginning of the 2020s. Its outlines are already taking shape. It will be a world in which security will play a greater role, as will central

governments. But will it be more just?

Matthias Horx, a 65-year-old futurologist, dared making an optimistic prediction right at the beginning of the corona crisis, arguing that many things would change for the better. He believes the crisis provides us with an opportunity to slow down the economy, to inject more solidarity into society and to learn to be satisfied with less.



Bazon Brock, however, believes such ideas are nonsense. People never learn the correct lessons from catastrophes, says the 83-year-old art theorist. Following the financial crisis, he points out, banks speculated more than ever. Arguing that crises are opportunities is naïve, he believes.

Either way, in situations such as the one we are currently experiencing, everyone yearns for a return to some form of business as usual. This crisis, though, is leaving us with little choice. It is forcing us to chart a course for a future that seemed impossible just a short time ago.

It was, after all, global mega-trends that made this pandemic possible in the first place: mobility, urbanization, interconnectedness, the worldwide division of labor and the destruction of the environment are all part of it. Which is why everything must now be examined with a critical eye.

This article marks the launch of a DER SPIEGEL series examining the vast changes we are facing. Among those shifts is the move away from globalization and the changes in the worldwide division of labor that entails. Another is the trillions in debt that will limit the flexibility of both countries and companies for years to come. Technology is likely to become an increasingly prominent feature of our daily lives. And more attention will have to be paid to the pressure heaped on the shoulders of workers and to ideas for making our economic model both fairer and more sustainable.

"Humanity learns only through suffering or persuasion," said the Swiss educator Johann Heinrich Pestalozzi back in 1799. The world after coronavirus provides a chance to combine the two.

From International Efficiency to Regional Stockpiling: Deglobalization

Crisis? What crisis? At agricultural machine manufacturer Grimme, production has continued at all its factories throughout the entire coronavirus shutdown. None of the company's 2,700 employees has been placed in a work furlough program and the only thing that has changed is that the shipping department now works in shifts because of social distancing rules. Otherwise, everything is as it has always been, says Grimme executive Jürgen Feld. "Our philosophy is helping us in these times," he says.

The company was founded in 1861 as the village blacksmith in Damme, southwest of Bremen. These days, it is the world leader in potato harvesting machines. The bright-red behemoths, some of them boasting more than 500 horsepower, dig the potatoes out of the earth before cleaning and sorting them. Eighty percent of the machines are exported, but the vast majority of production takes place in Germany, as it always has.

Grimme has consistently refused to adhere to modern-day management principles, such as the idea that large industrial manufacturers must produce globally and outsource services to remain as flexible and efficient as possible. Damme has frequently examined whether such an approach would work for the company, but has always chosen to go another direction.

The company, if you will, is more old school, preferring to produce as much as it can at home, particularly critical parts like screens and reels. In-house production depth, a reference used by economists to measure how much a company makes itself, is around 85 percent. "We've always been laughed at because of it," says Feld. Now, though, the erstwhile critics have become envious.

Greater Emphasis on Security

Whereas competitors such as Claas and Fendt have been forced to shut down their production lines, Grimme has become something of an avant-garde in the agricultural machinery industry and is indeed setting a trend for the economy as a whole. At the moment, production managers are receiving a rather brutal lesson in how crisis resistant their supply chains are, or aren't.

The results of that lesson can be seen from a survey conducted by the consulting firm EY among 145 companies in Germany. It found that a third of the companies are planning to make changes to their supply chains as a result of the corona crisis, placing greater emphasis on security and less on price.

Economist Thomas Straubhaar has never understood why companies insisted on establishing production sites overseas. "Producing cars in China, thus frivolously jeopardizing intellectual property and technical advantages, cannot be considered sustainable," he says.

Straubhaar is in no way a critic of globalization. On the contrary, he points out that free trade and the global division of labor has led to a situation in which more people are doing better than ever before, particularly the Germans.

Straubhaar has, however, observed that globalization is losing momentum. China's price advantage is shrinking, and wages have risen to Eastern European levels in many parts of the country. The pandemic risk has introduced yet another factor to slow the pace, the economist says, and it won't go away soon. "We all know that this won't be the last pandemic."

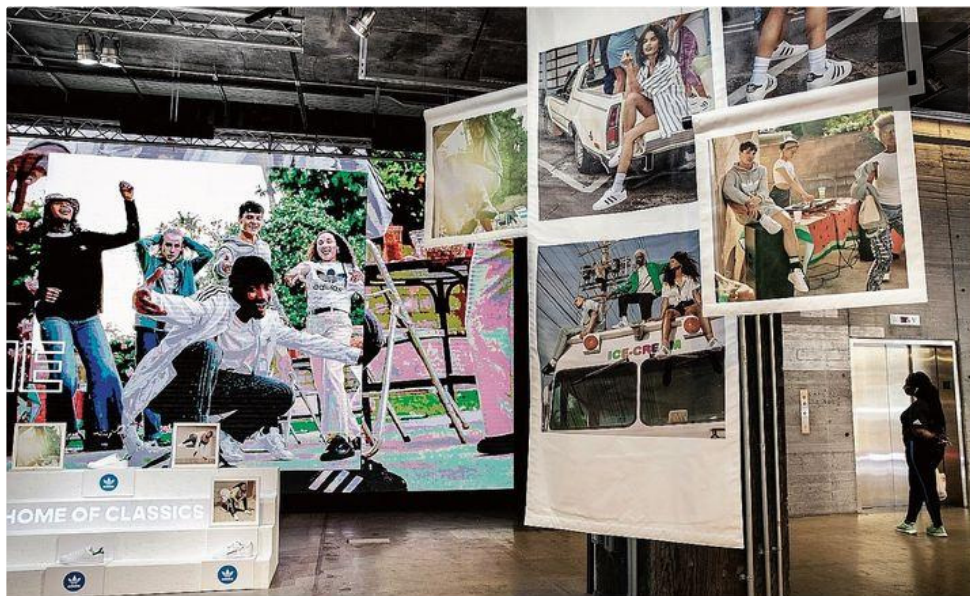
It is a realization that changes everything. Those who are 45 years old today, the average age in Germany, have never experienced anything else in their adult lives than a world of open borders, free markets and accelerating globalization. It is an era that began three decades ago with the fall of the Berlin Wall.

The Stuff of Dreams

A quarter century later, the rise of populists and protectionists slowed this process. The pandemic then brought it to an end.

The virus has revealed just how vulnerable our economic model is, regardless of how profitable it has been for Germany's export industry. Those companies whose production chains are largely international will face the greatest challenges -- companies such as the sportswear company Adidas, which has an in-house production depth of just 5 percent.

The company is headquartered in Herzogenaurach, near Nuremberg, but pretty much every other aspect of the company is spread out across the globe, including design and product development, but especially production. Finished products are supplied by around 630 companies in 52 countries. For an entire generation of executives, this model was the stuff of dreams. Everybody wanted to be like Adidas.



Some prefer to outsource (Adidas shop in New York) while others make almost everything in-house (such as the agricultural-machinery producer Grimme): Supply chains are only as strong as their weakest link.

But in this crisis, it has become apparent just how fragile such a structure can be. Border closures in Europe have made things much more difficult, Germany's Mechanical Engineering Industry Association has complained, even bringing production completely to a halt in some instances. A survey conducted by the association in mid-April found that 89 percent of companies have experienced clear hindrances to normal business operations. Supply chains, as has once again become apparent, are only as strong as their weakest link.

Indeed, the Fukushima catastrophe in March 2011 demonstrated just how rapidly they can break. Japanese automobile manufacturers were forced to suspend production for several months and suppliers around the world suddenly had an order shortage. Indeed, the indirect effects of the disaster were a hundred times greater than the direct, economic consequences.

The remedy is a strategy that is as old as humanity itself: Stockpiling. The problem, though, is that stockpiling binds capital, which has resulted in the shunning of the practice in favor of extreme efficiency. Now, though, executives seem to be changing their minds. In recent weeks, demand for storage space has skyrocketed. Stockpiling is the new black.

Multiple Supply Sources

Nowhere have the weaknesses of "outsourcing" and "just-in-time" manufacturing become more apparent in Germany than in the pharmaceutical industry. Basic ingredients often come from just a few factories in China and India -- and in early March, India suspended the export of 26 active ingredients and drugs, including paracetamol and the ingredients used to produce antibiotics. A study compiled by the logistics consulting firm Resilience360, a subsidiary of DHL, warns that the current crisis has shown just how important it is to maintain multiple supply sources. "Overall, the COVID-19 outbreak may be a wakeup call to the pharma industry and governments," the consultants write. And the industry wouldn't be opposed to bringing elements of production back home, assuming health insurance companies would be willing to pay the added costs. Because a restructuring of pharmaceutical supply chains, it seems obvious, would mean that a package of 20 paracetamol tablets would no longer cost just 1.29 euros (\$1.41).

That, indeed, is the flip side of de-globalization: Bringing things home increases security but it raises costs and shrinks profit margins. Still, the price of independence can, perhaps, be minimized -- using technology.

Arburg is a producer of injection molding machines, which their clients use to produce their own products -- including, most recently, face masks. The company is based in Lossburg, a town of 7,500 in the northern Black Forest. It is also the location of the company's only production site, which is rather unusual for a global player employing 3,200 people and generating revenues of 750 million euros.

The company has always wanted to be independent, which is partially a function of its location: Even just a trip to Stuttgart used to mean a day of travel back in the day. To ensure that production can still be profitable despite the higher salaries that must be paid in Germany, the factory is highly automated. Industrial robots do all kinds of jobs that used to be taken care of by workers, from mounting parts to welding. Indeed, they can even produce customized machines at prices that are comparable to mass produced pieces.

When it comes to the use of robotics in industrial production, Germany is among the world leaders, behind such countries as Singapore and South Korea. Even mid-sized companies like Arburg are increasingly embracing them. They can be used around the clock, they don't get sick and they don't have to go on vacation. They also don't have to stay 1.5 meters away from each other in times of pandemic. In short, they make it possible for production to continue in Germany.

Avoiding the Virtual Pandemic

Should coronavirus end up reversing globalization, in other words, it doesn't necessarily have to be disadvantageous to the export industry. Furthermore, not all products have to be packed into containers and shipped overseas. Globalization these days also refers to the exchange of virtual goods, such as data. And digitalization opens up vast potential to German industry.

Machine manufacturers, for example, can use a so-called "digital twin" to simulate how a particular unit works best before it is produced. Or it can be built on the computer and then produced locally by the customer with the help of a 3-D printer. Or, as is already frequently the case, machines can be serviced remotely, with sensors ordering replacement parts before they break.

Germany's "Hidden Champions," those myriad companies around the country that are leaders in their specific technological fields, are driving the digital transformation forward. Agricultural machine producer Grimme, for example, has come up with a "digital potato," essentially a potato-sized ball covered in sensors. The farmer places it in his field and then "harvests" it with a Grimme machine. As it makes its way through the harvester, it transmits all kinds of information related to optimal functionality, including potential damage done to real potatoes.

Digitalization will become the answer to globalization," says the economist Thomas Straubhaar, though he says that there is a significant danger to the process -- namely that digital infrastructure and cyberspace are susceptible to attacks. "We have to make sure that the current biological pandemic isn't followed by a virtual pandemic," he warns.

The consequences, he says, could even be worse than the consequences of the corona crisis. Homes without power, offices with no internet connections, banks lacking the ability to perform transactions: a complete shutdown. It is an eventuality that must be prevented at all costs -- a task that only the state is powerful enough to take on. Its role, in other words, will continue to grow. Even beyond the current crisis.

